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Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05
SAJ-01 TRSE-00 OMB-01 EB-08 /070 W
----------250815Z 033355 /11
P R 250409Z JAN 77
FM AMEMBASSY KUALA LUMPUR
TO SECSTATE WASHDC PRIORITY 5999
INFO AMEMBASSY BANGKOK
AMEMBASSY CANBERRA
AMCONSUL HONG KONG
AMEMBASSY JAKARTA
AMEMBASSY MANILA
USLO PEKING
AMEMBASSY RANGOON
AMEMBASSY TAIPEI
AMEMBASSY TOKYO
AMEMBASSY SINGAPORE
AMEMBASSY WELLINGTON
CINCPAC

C O N F I D E N T I A L SECTION 1 OF 2 KUALA LUMPUR 0549

NOFORN

CINCPAC ALSO FOR POLAD

E.O. 11652: GDS
TAGS: PINT, PFOR, PINS, MY
SUBJECT: THE OUTLOOK FOR MALAYSIA 1977

REF: (A) CERP 001, (B) 76 KUALA LUMPUR 1-51, 4/23/76

1. SUMMARY. UNDER THE LEADERSHIP OF ITS NEW PRIME MINISTER DATUK HUSSEIN ONN, MALAYSIA MADE EXCELLENT ECONOMIC PROGRESS IN 1976 AND WENT FAR TOWARD RENEWING FOREIGN INVESTOR CONFIDENTIAL

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CONFIDENCE, DEALING EFFECTIVELY WITH ITS FESTERING COMMUNIST INSURGENCY, AND MARGINALLY EASING COMMUNAL TENSIONS THAT HAD BEEN HEIGHTENED BY ACTIONS OF THE RAZAK REGIME WHICH FAVORED ETHNIC MALAYS. THE OUTLOOK, ASSUMING CONTINUED RECOVERY OF THE WORLD ECONOMY AND STABILITY IN THAILAND, IS GOOD AND THE COUNTRY SHOULD CONTINUE TO PROGRESS THROUGHOUT THE NEXT SEVERAL YEARS UNDER HUSSEIN'S HONEST AND

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STRAIGHTFORWARD LEADERSHIP. ONLY IF HUSSEIN SHOULD
SOMESHOW BE REMOVED FROM OFFICE WOULD THE RISK OF POLITICAL
DESTABILIZATION ARISE. US RELATIONS, WHILE NOT INTIMATE,
REMAIN CORDIAL AND CORRECT, AND PROSPECTS FOR INCREASED
ECONOMIC AND EDUCATIONAL CONTACTS ARE PROMISING. ND SUMMARY.

2. THE ASSUMPTION OF NATIONAL AND RULING PARTY (UMNO)
LEADERSHIP BY DATUK HUSSEIN ONN UPON THE UNEXPECTED DEATH
OF TUN RAZAK ON JANUARY 14, 1976, BEGAN AN EVENTFUL YEAR
FOR MALAYSIA. DESPITE THE SUBSEQUENT TURBULENCE WITHIN UMNO,
HUSSEIN'S HONEST AND STRAIGHTFORWARD DEVOTION TO THE
NATIONAL INTEREST BROUGHT CHANGES FOR THE BETTER WHEN
COMPARED WITH DEVELOPMENTS UNDER THE AUTHORITARIAN AND
BYZANTINE RAZAK. THE MOST OBVIOUS RESULT OF THE NEW PRIME
MINISTER'S PRAGMATIC, NON-IDEOLOGICAL APPROACH WAS THE
REMOVAL IN THE LATE SUMMER OF FINANCE MINISTER TENGKU
RAZALEIGH AS HEAD OF THE NATIONAL PETROLEUM COMPANY (PETRONAS),
FOLLOWED BY CONCLUSION OF OIL EXPLORATION AND PRODUCTION
AGREEMENTS WITH SHELL AND EXXON AND THE REPEAL OF THE
OFFENSIVE "MANAGEMENT SHARES" ARTICLE OF THE PETROLEUM
DEVELOPMENT ACT. THESE AGREEMENTS
AFTER ONE YEAR OF UNPRODUCTIVE NEGOTIATIONS AND
FEARS THAT RAZALEIGH INTENDED TO FORCE NATIONALIZATION
OF THE COMPANIES, OPENED THE WAY FOR RENEWED INTEREST
BY FOREIGN INVESTORS. OTHER SIGNIFICANT RESULTS
INCLUDED: A) REVISION OF THE THIRD MALAYSIA PLAN
(TMP), MOST IMPORTANTLY TO ENSURE THAT IT WAS
AIMED AT ELIMINATING POVERTY REGARDLESS OF RACE,
RATHER THAN JUST RESTRUCTURING THE ECONOMY IF FAVOR
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OF THE MALAYS (46PCT OF THE POPULATION), AND B) HIS
ANNOUNCED INTENTION TO REVISED THE INDUSTRIAL
COORDINATION ACT (ICA) TO ACCOMMODATE CHINESE
(36PCT OF THE POPULATION) FEARS THAT IT WOULD PLACE
TOO MUCH POWER IN THE HANDS OF THE GOVERNMENT TO
FORCE ABSORPTION OF MALAYS BY CHINESE ENTERPRISES.
HUSSEIN'S ACTIONS, WHICH EVOLVED OVER THE YEAR, HAD A
BENEFICIAL EFFECT ON THE CRUCIAL PROBLEM OF COMMUNAL
INSTABILITY. AT YEAR'S END, SUPPORT FOR HIS LEADERSHIP
SEEMED TO BE GROWING AMONG MALAYS AND NON-MALAYS ALIKE.

3. UPON TAKING OFFICE, THE NEW PRIME MINISTER
ANNOUNCED THAT THE GROWING COMMUNIST INSURGENCY WOULD
RECEIVE HIGHEST PRIORITY IN HIS CONSIDERATION OF
PROBLEMS FACING THE NATION. AGGRESSIVE ACTION BY THE
POLICE AND ARMY WITHIN PENINSULAR MALAYSIA LED
TO IMPORTANT CAPTURES OF COMMUNIST PARTY OF MALAYA
CPM) CADRE AND MATERIAL SERIOUSLY WEAKENING
THE PARTY'S ABILITY TO CONDUCT OFFENSIVE OPERATIONS

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SOUTH OF ITS SANCTUARIES ACROSS THE THAI BORDER.
CAPTURES ALSO GREATLY IMPROVED GOM INTELLIGENCE ON
THE ORGANIZATION OF THE CPM'S CLANDESTINE NETWORKS.
REMOVAL OF POLICE FCELD FOCE (PFF) UNITS FROM
BETONG, A KEY CPM SANCTUARY IN THAILAND, IN APRIL
QGS A MAJOR SETBACK IN GOM EYES, BUT THE OCTOBER
BANGKOK COUP AND SUBSEQUENT CORDIAL EXCHANGES WITH
THE THAI MILITARY RENEWED HOPE THAT THE RTG WOULD
EVENTUALLY PERMIT EFFECTIVE ACTION AGAINST THE CPM
ON THAI TERRITORY. HOWEVER, EVEN WITH IMPROVED
INTELLIGENCE, BETTER MORALE, GREATER MANPOWER
AND EQUIPMENT FOR THE SECURITY FORCES, AND EVEN IF
MORE EFFECTIVE CROSS-BORDER OPERATIONS ARE PERMITTED,
THE INSURGENCY IS NOT LIKELY TO DISAPPEAR IN THE
FORESEEABLE FUTURE. STILL, IT IS UNDER MUCH BETTER
CONTROL AND HAS NOT BEEN PERMITTED TO THREATEN THE
ECONOMIC OR POLITICAL LIFE OF THE COUNTRY.
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4. SINCE THE LATE SIXTIES, GOM FOREIGN POLICY OBJECTIVES HAVE INCLUDED MAINTENANCE OF PARTICULARLY CLOSE RELATIONSHIPS WITH NON-COMMUNIST REGIMES IN THE REGION THROUGH ASEAN (THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS) AND ACTIVE RELATIONS WITH THE NONALIGNED AND ISLAMIC CONFERENCE MOVEMENTS. A FOCUS OF RELATIONS WITH THE MIDDLE EAST, WHICH ARE CONTINUING TO DEVELOP, IS THE SUCCESSFUL TAPPING OF CAPITAL RESOURCES THERE. THESE RELATIONSHIPS ARE BELIEVED NECESSARY
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TO PROTECT MALAYSIA FROM THE EFFECTS OF SUPERPOWER RIVALRY (OR COOPERATION). SINCE THE FALL OF SAIGON, THE GOM HAS ALSO SOUGHT FRIENDLY RELATIONS WITH INDOCHINA, PARTICULARLY THE SRV, IN HOPES OF CONVINCING HANOI THAT IT SHOULD SUPPORT MALAYSIAN EFFORTS TO PROTECT THE REGION FROM EXTERNAL PRESSURES THROUGH CREATION OF A REGIONAL ZONE OF PEACE, FREEDOM AND NEUTRALITY (ZPFN). IT HAS TAKEN A CONCILIATORY LINE TOWARD THE SRV AND HAS URGED ITS ASEAN PARTNERS TO DO THE SAME. IT HAS SHOWN ITSELF WILLING, AMONG OTHER THINGS, TO TOLERATE A CERTAIN AMOUNT OF IDOLOGICAL INVECTIVE FROM HANOI (AND PEKING) SO LONG AS THERE IS NO DIRECT MATERIAL AID TO THE MALAYSIAN INSURGENTS. GOM-SRV RELATIONS PROSPERED AFTER THE VISIT IN JULY OF VICE FOREIGN MINISTER PHAN HIEN BUT WERE ERODED IN AUGUST WHEN A SRV-LAOTIAN COALITION DEFEATED A GOM-SPONSOREED RESOLUTION TO HAVE THE PROPOSED ZPFN ENDORSED BY THE FIFTH NONALIGNED SUMMIT AT COLOMBO. FURTHER EROSION TOOK PLACE AFTER THE TURN OF THE YEAR WHEN HANOI BITTERLY ATTACKED A JOINT THAI-MALAYSIAN COUNTER INSURGENCY OPERATION, BRANDING IT AS AMERICAN-DIRECTED.

5. AMERICAN RELATIONS WITH MALAYSIA IN RECENT YEARS HAVE BEEN CORDIAL AND CORRECT. THE LATE TUN RAZAK'S REQUEST FOR US MILITARY ASSISTANCE FOLLOWING THE FALL OF SAIGON WAS MET WITH CREDIT GUARANTEES (FMS-$17 MILLION IN FY 76, $36 MILLION IN FY 77, A PROJECTED $20 MILLION IN FY 78). THIS BROUGHT ABOUT A SLIGHTLY CLOSER COLLABORATION, BUT FEAR OF TARNISHING MALAYSIA'S NONALIGNED CREDENTIALS

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CONTINUES TO DICTATE KEEPING THE US PUBLICLY AT
ALMOST THE SAME DISTANCE AS THE PRC AND THE USSR,
ALTHOUGH IN FACT WE ENJOY CLOSER RELATIONS THAN EITHER
COMMUNIST POWER. A HIGH LEVEL EXCHANGE OF VIEWS
DURING THE VISIT OF FORMER VICE PRESIDENT ROCKEFELLER
IN LATE MARCH SHOWED HUSSEIN TO BE MORE PRO-US THAN
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RAZAK, BHT THE PRIME MINISTER HIMSELF WARNED
ROCKEFELLER OF HIS INABILITY TO PUBLICLY DEMONSTRATE
ANY PARTIALITY. THUS THE EMBASSY CONTINUES TO FEEL
THAT IN THE NEAR TERM NEITHER THE US NOR MALAYSIA WILL
SEE IT IN ITS INTEREST TO PURSUE A MORE INTIMATE
POLITICAL OR SECURITY RELATIONSHIP. HOWEVER, US
INVESTMENT IN AND TRADE WITH MALAYSIA ARE INCREASING,
AND RELATIONS ARE BECOMING MORE ACTIVE ON COMMODITY
QUESTIONS. MALAYSIAN INTEREST IN AMERICAN EDUCATION
ALSO HAS INCREASED MARKEDLY, THEREFORE THE FUTURE SHOULD
PROVIDE AMPLE OPPORTUNITY FOR EXCHANGE OUTSIDE OF THE
DEFENSE SPHERE. THE GOM ALSO DESIRES US SUPPORT
BOTH FOR THE ZPFN AND, MORE REALISTICALLY, FOR
SCHEMES TO STABILIZE WORLD PRICES FOR RUBBER AND
TIN AND WILL CONTINUE TO PRESS US ON THIS POINT.

6. OUTLOOK--MALAYSIA'S FUTURE PROSPECTS SEEM GOOD
AT THE PRESENT TIME. ASSUMING CONTINUED WORLD ECONOMIC
RECOVERY, THE ECONOMIC OUTLOOK IS BRIGHT AND THE
ECONOMY IS EXPECTED TO EXPAND RAPIDLY ENOUGH TO
ACCOMPLISH THE DELICATE RESTRUCTURING OF SOCIETY ON
BEHALF OF THE MALAYS THROUGH ADDITIONALLY RATHER THAN
AT THE EXPENSE OF THE CHINESE. EVEN OF THE WORLD
ECONOMY FALTERS OR PRIVATE INVESTMENT IS LESS THAN
PROJECTED IN THE TMP, GOM RESERVES AND THE
COUNTRY'S EXCELLENT CREDIT RATING, NOT TO MENTION
INCREASED EARNINGS FROM PETROLEUM, SHOULD, FOR A
LEAST AT LIMITED TERM, PROVIDE SUFFICIENT CUSHION
TO SUSTAIN THE PACE OF ECONOMIC GROWTH THROUGH
INCREASED PUBLIC EXPENDITURE. DOMESTIC TRANQUILITY,
THEREFORE, IS NOT THREATENED FROM THAT QUARTER.

7. THE INSURGENCY ALSO IS IN HAND UNLESS OUTSIDE
POWERS (E.G., HANOI) INTERVENE DIRECTLY OR POLITICAL
INSTABILITY IN THAILAND RESULTS IN A SITUATION
FAVORABLE TO THE THAI AND MALAYSIAN COMMUNISTS.
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THE THREAT OF COMMUNAL DISORDERS WILL CONTINUE TO BE MALAYSIA'S MOST SERIOUS UNDERLYING PROBLEM. THE ONE IMMEDIATE UNCERTAINTY IS THE THREAT TO INTERNAL STABILITY FROM DISUNITY WITHIN UMNO, A DISUNITY THAT WOULD BE QUICKLY INCREASED SHOULD DATUK HUSSEIN DIE OR LEAVE OFFICE BEFORE DEPUTY PRIME MINISTER MAHATHIR IS CONFIRMED AS HIS SUCCESSOR IN THE PARTY ELECTIONS SCHEDULED FOR MID-1978. SHOULD THE SENIOR PARTY AND GOVERNMENT POSITION FALL VACANT BEFORE THAT TIME, THE ALMOST CERTAIN STRUGGLE FOR THE SUCCESSION AMONG UMNO CLIQUES THAT EITHER DISLIKE MAHATHIR FOR PAST SINS AND/OR HAVE CANDIDATES FOR THEIR OWN, COULD RESULT IN DESTABILITY COMMUNAL RELATIONS. THUS, ALTHOUGH THE OVERALL PICTURE IS OPTIMISTIC, SUDDEN POLITICAL DESTABILIZATION WILL REMAIN A POSSIBILITY FOR THE NEXT 16 TO 18 MONTHS.

8. THE FOREGOING IS A SUMMARY OF A MORE DETAILED COUNTRY TEAM ASSESSMENT WHICH IS BEING SUBMITTED BY AIRGRAM.
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